

71. This loss continues until either one goes out of business or a pooling arrangement is made and probably one of the theatres closed, with the rental overhead still remaining and the profits spread over a larger capital. There is hardly a town of any size in New Zealand in which some variation of the above has not occurred. Typical instances which come to mind are—

Ashburton	Greymouth	Oamaru	Tauranga
Blenheim	Levin	Onehunga	Te Kuiti
Dannevirke	Masterton	Opotiki	Timaru
Feilding	Matamata	Petone	Waimate
Foxton	Morrinsville	Palmerston North	Waihi
Gisborne	Nelson	Pukekohe	Waitara
Gore	Motueka	Rotorua	Westport
Greytown	New Plymouth	Taihape	Whangarei.

72. The possibilities of the situation can probably best be studied by a consideration of similar representations made by the Canadian exhibitors, which resulted in the holding of a Royal Commission. The Commissioner reported that one of the major American producing interests (Paramount) had established what amounted to a stranglehold on the exhibition side of the business in Canada. The methods adopted, briefly stated, were that the firm concerned would announce its intention to enter the exhibition field in a district then served by an independent exhibitor or exhibitors, and in most cases would at small cost obtain an option on a suitable site for a theatre.

73. This fact would be brought under the notice of the independent exhibitor, and either directly or indirectly negotiations would be made for the acquisition of an interest in the independent's business. The considerations advanced were that the Paramount subsidiary, by its position in the industry, was enabled to control not only the product of its principals, but a considerable proportion of that of the other major producing companies, and was therefore in a position to have at its disposal for competitive exhibition such a proportion of the total first-rate films available that the independent exhibitor would not be able to offer serious competition. The proposal made to the independent was that Paramount and the independent should form an exhibiting company with nominal capital, each holding 50 per cent. of the shares—Paramount shares to be represented by the film-supply and the independent exhibitor's by his exhibition business.

74. In many cases this method was effective in forcing the exhibitor to enter an arrangement which gave Paramount 50 per cent. of the profits of the business with practically no financial outlay. Where the exhibitor refused to make this arrangement a proposal was submitted to local investors on the lines of that set out in paragraph 70, and in view of the constantly increasing importance of the Paramount organization in the industry it formed a very attractive investment. The new theatre would be built, and in due course the independent exhibitor would be forced out of business. As a result of the Commission, an action was taken against the Paramount Co. by the Government, but the Court held that the evidence did not establish a "monopoly" within the meaning of the Canadian legislation, and the case was dismissed.

75. It is understood that the representations to the Government affirmed that a system was operating in New Zealand which in many respects paralleled that outlined above, but operated by major exhibitors and not by renters. This was denied by the chain-theatre interests concerned.

76. There are definite indications that an arrangement exists between the management of the theatre interests referred to above as the "combine" to prevent the inter-chain competition in the secondary towns which has proved disastrous in a number of instances during the past few years. This is no doubt in accordance with ordinary business practice, but it will be noted that it tends to make any competition between these interests and an independent exhibitor much more effective.

77. During the discussions when the regulations were under consideration the point was made that it is in the best interests of the country that the independent exhibitor should be maintained as a factor in the industry. It has been noted above that there is some difficulty in the successful management of large theatre chains, mainly because in course of time these tend to develop excessive overhead charges, and it was the failure of one of the principal exhibiting concerns in Australia during the present depression which enabled the American interests to obtain control of a large proportion of the principal theatres. It is possible that further aggregation of exhibitor interests in New Zealand into a few hands might sooner or later result in a similar position arising in this country.

#### *Sound-picture-reproduction Apparatus.*

78. Another important factor which has seriously affected the industry during the depression and which also has a bearing on the situation where unnecessary theatre-building occurs, owing to the additional overhead involved, is the cost of sound-reproduction. The equipment required for silent pictures was comparatively simple. It consisted of two projection machines, which cost about £200 each, it could be fitted into a comparatively small projection-room, and the projection cost was therefore only a small percentage of the theatre-running expenses.

79. The sound-picture was developed on a commercial basis by a subsidiary of the American Western Electric Co., and when the pictures were put on the market this company was practically the only supplier of reproduction equipment. It had also supplied to the producers the plant with which the pictures were made, and its contracts with the latter provided that the pictures should not be reproduced except on Western Electric equipment or on equipment of equal reproductive efficiency, of which fact it (Western Electric Co.) was in effect to be the judge.

80. It must be admitted that it was essential for the success of the talking-picture that the reproduction in the theatre should be of as high a standard as possible, and that many of the early attempts to produce locally made equipment were anything but satisfactory. The exhibitors also were naturally anxious to take advantage of the novelty value of the talking-picture. These facts, coupled with the pressure exerted by the American renting companies, forced most of the principal exhibitors to install Western Electric equipment, and within twelve months from the introduction of sound films into New Zealand installations were made in nearly a hundred theatres.

81. It is generally acknowledged that the Western Electric plant is an excellent one, but the terms dictated by the American company were a severe tax on the exhibitor even in the prosperous times. The company would not sell the equipment, but only lease it for a period of ten years. The exhibitor was required to pay either on installation or spread over a period of two years plus interest a sum depending on the size of the theatre, but ranging from £2,000 to £5,000, and, in addition, a rental or service charge of £5 to £7 per week. This charge did not include the cost of projection apparatus; and all replacements of valves, &c., were made at a price stated to be considerably higher than similar units manufactured by other firms.

82. The high cost of sound-reproduction equipment was one of the factors in the financial difficulties experienced by many of the exhibitors during the depression. In a number of cases it became impossible to continue the payments to Western Electric, and rather than remove the equipment the company usually compromised, either by reducing the rate of payment or extending the term. Probably as a result of present conditions and in view of competition with other equipments the company has recently issued a modified system of charging, under which payments cover both leasing and service charges. At the present time the charge for new installations for dual projection machines is £6 16s. 6d. per week in the case of theatres seating up to 1,000 and £8 16s. 6d. per week in the case of larger theatres. An additional charge is made to cover the cost of transport and theatre-wiring, and replacements are charged for in the usual way. Most of the theatre-proprietors who installed the apparatus in the early days of the sound-picture have now completed the initial payment, and their costs are limited to a service charge of £3 to £5 10s. per week, plus, of course, replacements.

83. There are now several locally made equipments of excellent quality on the market which can be purchased outright at prices varying from £100 to £150 for a small country hall to £1,100 for the largest theatre. A number of exhibitors